



Internal Audit Report

**Grants Management
April 2003**



Audit Team Members

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Maricopa County

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April 22, 2003

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2003 review of Countywide Grants Management. The audit was performed in accordance with the annual audit plan approved by the Board of Supervisors.

The highlights of this report are:

- With only minor exceptions, the departments we reviewed were adequately monitoring grants and processing reimbursement requests.
- County policies outlining grant responsibilities should be updated.
- County personnel who routinely work with grants cited numerous financial system deficiencies. We found some to be legitimate concerns, while others stemmed from inadequate training.

Attached are detailed findings, recommendations, and the Department of Finance response. We have reviewed this information with Finance and the Office of Management and Budget and appreciate their excellent cooperation. If you have questions, or wish to discuss items presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Grant Monies (Page 6)

Other than a few exceptions, we found no evidence of inadequate grant monitoring or untimely reimbursement requests by the departments we reviewed. However, one department requested reimbursements (totaling \$742,247) quarterly rather than monthly, which slows cash flow. In addition, departments that are allowed to recover indirect costs appear to be adequately collecting reimbursement from their grantors.

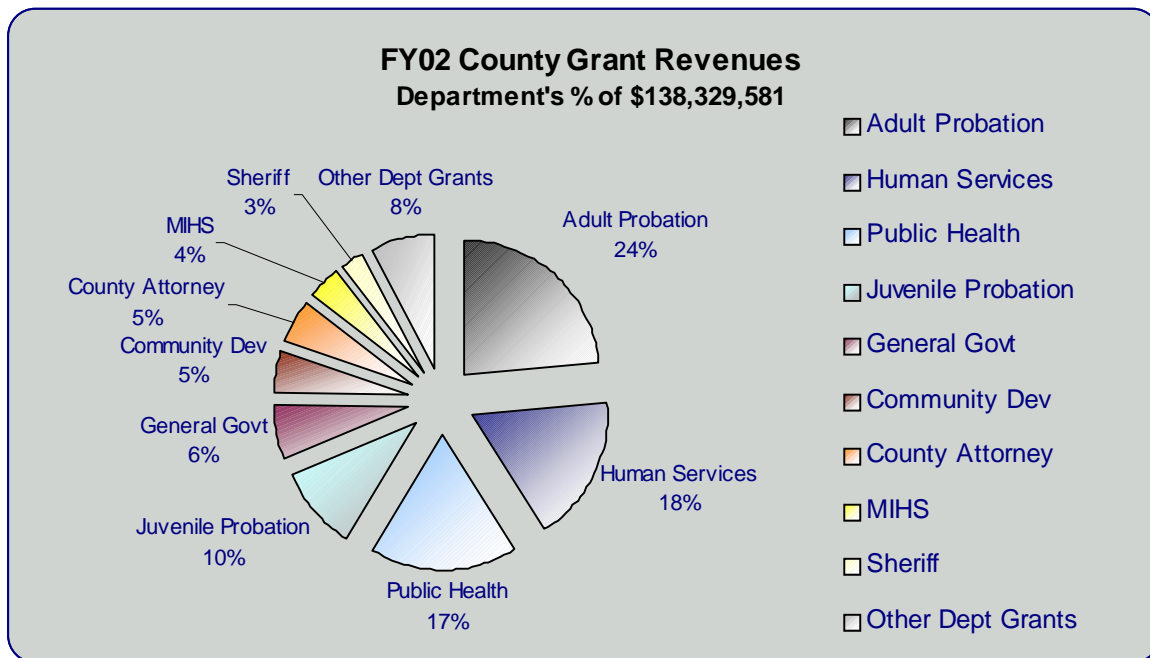
Communication Issues (Page 7)

People who work with grants in County departments cite several deficiencies with the County financial system. Approximately half of these deficiencies reflect legitimate criticisms while the other half reflect misperceptions about system capabilities. System inflexibility and ineffective communication increase the potential for inaccurate grant accounting, poor morale, and inefficiency. The Department of Finance should update the grants manual, hold periodic meetings with grants departments, and track the County's success in gaining and maintaining grants.

Introduction

Grant Revenues

Maricopa County annually receives millions of dollars in grant funds from federal, state, and local agencies to support various services and programs. In FY 2002 the County received \$138 million in grant funds. The four largest FY 2002 grant holders were Adult Probation, Human Services, Public Health, and Juvenile Probation as shown below.



Graph source: County Financial System

Note: "Other Department Grants" consist of:

Clerk of the Superior Court	Justice Courts
Correctional Health	Library District
Emergency Management	Parks & Recreation
Environmental Services	Solid Waste
Equipment Services	Superior Court
Flood Control	Transportation
Indigent Defense	

Grant Oversight

Agencies that Provide Grant Oversight

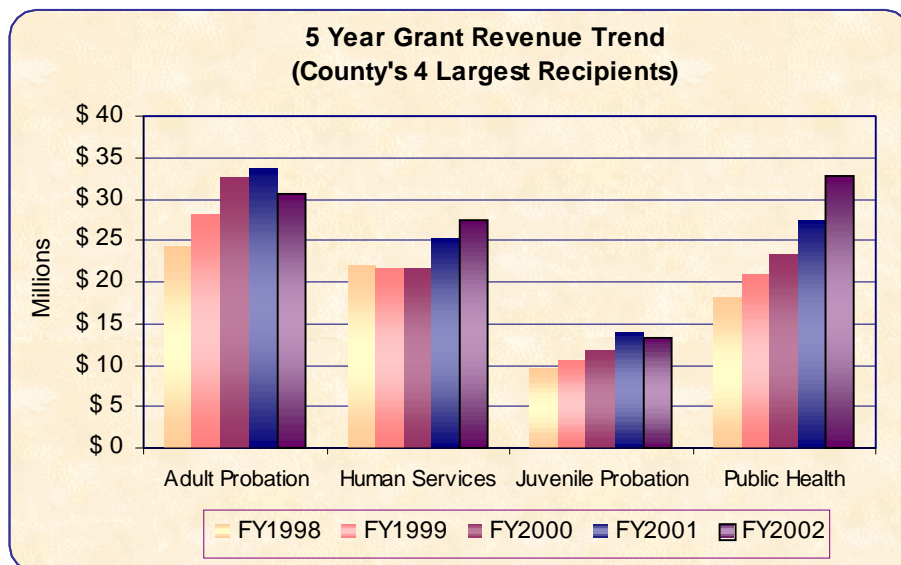
Agency	Oversight
Department of Finance	Certain financial system aspects
Internal Audit	Periodic Reviews
Office of the Auditor General	Reviews grants over threshold of \$300,000
Administrative Office of the Courts	Reviews Justice & Law Enforcement grants
Federal Agencies	Reviews federal grants

Grant Coordination

In some larger grant departments, efforts to generate new grant monies are the responsibility of a dedicated grant person. In other grant departments, the responsibility is less centralized.

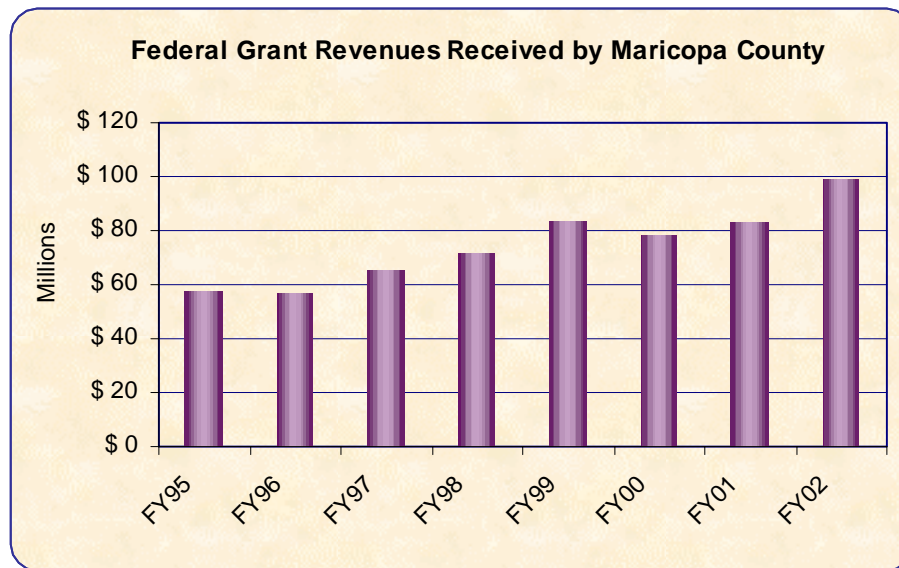
The County Administrative Officer's Government Relations Division has a Grants Activity Program. This program seeks to identify and coordinate grants Countywide to maximize grant revenue.

Grant revenues are on an upward five-year trend for the County's four largest grant recipients, except for decreases in FY 2002 for Adult Probation and Juvenile Probation, as shown below.



Graph sources: County Financial Reports & Department of Finance

Total federal grant revenues received by the County are shown in the graph below. Other annual grant revenue totals, such as state and local, are not shown because data is not readily available.



Graph sources: County Single Audit Reports & FY02 Auditor General estimate

Scope and Methodology

The objectives of this audit were to:

- Assess the Department of Finance's role in oversight of Countywide grants and grant policies and identify the written policies that govern grant administration
- Review the Auditor General's County grant audit work and identify associated risks
- Determine if departments and/or Finance reconcile departmental grant reports to the financial system
- Determine if departments request timely grant reimbursements
- Identify Countywide efforts to obtain new or additional grants monies

This audit was performed in accordance with Government Auditing Standards.

Department Reported Accomplishments

The Department of Finance's Grants Division provided the Internal Audit Department with the following information for inclusion in this report.

The Department of Finance initiated a monthly Fund Balance Report. This report is prepared by the Department of Finance and distributed on a monthly basis. The report provides inception to date revenue and expenditure information.

Monthly reports generated by Advantage are available on Report.web within one day after month-end close.

The Department of Finance has provided the opportunity to utilize spreadsheets when transferring data. This is typically done when closing out reporting categories associated with Grants.

Downloads of the general ledger are currently being provided to grant departments by the Department of Finance Database Administrator.

Downloads of the general ledger are also being provided by the grant group on an as needed basis to assist grant agencies in completing reconciliations throughout the month.

The Department of Finance has streamlined the process of preparing the Schedule of Expenditures of Federal Awards which is included in the Single Audit Report prepared by the State Auditor General's Office.

The Department of Finance enhanced the process regarding the preparation of the grant confirmations letters which are sent to all Grantors by the State Auditor General's Office. This enhancement resulted in timesavings from a County perspective.

The Department of Finance has enhanced the forms related to fiscal year end processing of grants and contract encumbrances.

The Department of Finance continues to provide one-to-one training to:

- employees new to the grant arena
- employees who request additional training/guidance
- employees who demonstrate a need

Issue 1 Grant Monies

Summary

Other than a few exceptions, we found no evidence of inadequate grant monitoring or untimely reimbursement requests by the departments we reviewed. However, one department requested reimbursements (totaling \$742,247) quarterly rather than monthly, which slows cash flow. In addition, departments that are allowed to recover indirect costs appear to be adequately collecting reimbursement from their grantors.

Policy

According to the Department of Finance (Finance) Grant Manual, grant managers should request grant funding, in advance if possible, and request reimbursements whenever expenses exceed \$100,000, or at least monthly. Adherence to this policy is important in order to limit negative interest charges and improve the County's cash flow.

Grant Reimbursements

We reviewed FY 2002 data from 11 of 22 grant departments to determine if they follow Finance's Grant Manual guidance. Overall, we found no evidence that grant departments are not regularly monitoring their grants and requesting timely reimbursements.

However, we found that one department conducted quarterly reimbursement requests (totaling \$742,247) instead of monthly requests; this situation has now been corrected. We also found a few cases where departments were relatively slow in their monthly reimbursement requests.

Indirect Cost Recoveries

Based upon our review of financial data, it appears the major grant departments recover indirect costs from their grantors when allowable.

Recommendation

None, for information only.

Issue 2 Communication Issues

Summary

People who work with grants in County departments cite several deficiencies with the County financial system. Approximately half of these deficiencies reflect legitimate criticisms while the other half reflect misperceptions about system capabilities. System inflexibility and ineffective communication increase the potential for inaccurate grant accounting, poor morale, and inefficiency. The Department of Finance should update the grants manual, hold periodic meetings with grants departments, and track the County's success in gaining and maintaining grants.

County Policies are Outdated

Various Finance responsibilities listed in County policies are no longer valid. The policies do not reflect that some responsibilities, such as monitoring and requesting timely reimbursements, have been transferred to the grant departments.

Miscommunications & Inflexible Financial System

Departmental grant-related staff expressed considerable frustration with the grant information available on the County's financial system. The interviewees stated that the financial system creates additional work for them because of its inflexibility.

We summarized the departments' comments into eleven issues and discussed them with Finance. We found these problems are a result of financial system inflexibility and the need for increased communication between the departments and Finance, as shown below.

Source of Grant Reporting Problems	
Type	# of Problems
Communication	6 (55%)
System Inflexibility	5 (45%)
Total:	11 (100%)

Our review also identified a need for improved communications between the Budget office and the departments with respect to budgeting indirect costs.

Risk

System inflexibility and insufficient communication increases the potential for inaccurate grant accounting data, poor morale, and inefficiency.

Recommendation

The Department of Finance should consider:

- A.** Updating County policies to reflect current responsibilities, placing the most current grant manual on the County website, and adding the manual to the Intranet, where employees are most likely to look for County policies.
- B.** Incorporating grant department needs when planning a new financial system, conducting quarterly or bi-annual meetings with grant departments, and including Budget office personnel in these meetings.
- C.** Annually assessing the County's success in gaining new grants and maintaining current grants.

Department Response



Maricopa County

Department of Finance

Tom Manos
Chief Financial Officer
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Suite 950
Phoenix, AZ 85003-2278
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April 10, 2003

Ross L. Tate, County Auditor
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Mr. Tate:

We have completed our review of the Countywide Grants Management Report prepared by Internal Audit. Your recommendations have been considered and our response has been forwarded for inclusion with the final report.

If you have any questions, please contact Shelby Scharbach at 506-1367.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom", written over a horizontal line.

Tom Manos
Chief Financial Officer

Issue #1 Grant Monies

Other than a few exceptions, we found no evidence of inadequate grant monitoring or untimely reimbursement requests by the departments we reviewed. However, one department requested reimbursements (totaling \$742,247) quarterly rather than monthly, which slows cash flow. In addition, departments that are allowed to recover indirect costs appear to be adequately collecting reimbursement from their grantors.

Response: Concur.

Recommendation: None. Information purposes only.

Response: N/A

Target Completion Date: N/A

Benefits/Costs: N/A

Issue #2 Communication Issues

People who work with grants in County departments cite several deficiencies with the County financial system. Approximately half of these deficiencies reflect legitimate criticisms while the other half reflect misperceptions about system capabilities. System inflexibility and ineffective communication increase the potential for inaccurate grant accounting, poor morale, and inefficiency. The Department of Finance should update the grant manual, hold periodic meetings with grants departments, and track the County's success in gaining and maintaining grants.

Response: Concur.

Recommendation A: Updating County policies to reflect current responsibilities, placing the most current grant manual on the County website, and adding the manual to the Intranet, where employees are most likely to look for County policies.

Response: Concur in process. The Department of Finance will update the County policies to reflect current responsibilities and place the most current grant manual at the following website: ebc.maricopa.gov/finance.

Target Completion Date: June 30, 2003

Benefits/Costs: There are no additional costs associated with the implementation of this recommendation.

Recommendation B: Incorporating grant department needs when planning a new financial system, conducting quarterly or bi-annual meetings with grant departments, and including Budget office personnel in these meetings.

Response: Concur. At the time a new RFP for a financial system becomes evident, the DOF will ensure the needs of all users are taken into consideration. This will include establishing focus groups to discuss financial system needs, current areas of dissatisfaction, potential system opportunities, etc. The focus groups will discuss all aspects of financial management including, but not limited to, Fixed Assets, Accounts Payable, Capital Improvement Projects, Financial Transaction Processing, etc.

The DOF had already been planning to conduct regular meetings with grant departments. In addition to inviting grant departments to these regular meetings, the DOF will invite Budget personnel to discuss grant issues.

Target Completion Date: First Quarterly meeting to be held by 6/30/2003


Benefits/Costs: Regular quarterly meetings will bridge the communication between departments, Finance and Budget. There are no costs associated with the implementation

Recommendation C: Annually assessing the County's success in gaining new grants and maintaining current grants.

Response: Concur (in part) - completed. This information is available for Federal Awards as management can review the Schedule of Expenditures of Federal Awards from year to year. Each department has the direct responsibility to track, monitor and report on the grants that they have applied for and received. The Department of Finance currently provides each grant department with a monthly Fund Balance Report, which can be monitored, by the individual departments for this type of activity. Therefore, the Department of Finance believes the responsibility of assessing the County's success in gaining new grants and maintaining current grants should remain with the individual departments.

Target Completion Date: N/A

Benefits/Costs: N/A

Approved By: 
Chief Financial Officer

4/10/03
Date


County Administrative Officer

4/16/03
Date